Melville annual report 1969

Thom McAn
CVS
FOXWOOD CASUALS
MILES
chess
king
MENS SHOES

Melville Shoe Corporation
annual report 1969

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Directors and Officers *Inside Back Cove*

Annual Meeting of stockholders
will be held at the Executive Offices in
New York City on April 14, 1970

chess king
Thom McAn
MELDISCO
CVS FOXWOOD
vanguard MILES
J.F. McElwain

Highlights	**1969**	**1968**	**Percent Change**
Net Sales	$362,491,889	$292,971,938	+23.7
Earnings before Federal Income Taxes	32,917,167	27,599,836	+19.3
Net Earnings	19,049,974	16,227,503	+17.4
Dividends on Common Stock	7,261,528	6,006,962	+20.9
Net Earnings Per Share of Common Stock	3.26	2.89	+12.8
Dividends Per Share of Common Stock	1.30	1.10	+18.2
Net Earnings as a Percent of Net Sales	5.26%	5.54%	
Cash	16,586,552	18,011,946	— 7.9
Inventories	75,908,285	58,744,980	+29.2
Net Working Capital	64,506,527	55,824,339	+15.6
Shareholders' Equity	81,676,445	67,652,265	+20.7
Number of Common Shares, Outstanding*	5,719,521	5,479,205	+ 4.4
Number of Stores	1,626	1,474	+10.3
Number of Employees	11,800	10,800	

Number of Shareholders: approximately 17,000

* Based on average number of shares outstanding.

Ward Melville
Chairman of the Board

Murray M. Rosenberg
Chairman of the Executive Committee

President's Letter

In 1969 Melville Shoe Corporation and subsidiaries earned $19,049,974, achieving a record high for the sixth consecutive year and a gain of 17.4 percent over the 1968 figure of $16,227,503. Per-share earnings for the average number of shares outstanding were $3.26 in 1969 as compared with $2.89 in 1968. Earnings per share, excluding the acquisition of Consumer Value Stores and Mark Steven, Inc. were $3.28 per share as compared to $2.89 in 1968.

The year's record earnings resulted from net sales of $362,491,889, also a record total, representing a rise of 23.7 percent over 1968 net sales of $292,971,938. Net sales, excluding the acquisition of Consumer Value Stores and Mark Steven, Inc. were $338,749,697 an increase of 15.6 percent over the net sales for 1968 of $292,971,938.

Along with its sales and earnings, the number of stores operated by Melville and its subsidiaries increased to 1,626 as of December 31, 1969, up 10.3 percent from 1968's year-end total of 1,474.

All divisions of Melville made significant progress in improving their specialty market positions. Thom McAn, the long-time best-selling men's shoe, continued to lead the field as well as further improving its position as the favorite shoe of teenagers and young families. Miles, with its new youthful emphasis in product, promotion and store format, intensified its concentration on the sophisticated young women's market. Meldisco continued to move toward the top in its specialty area—leased department operations.

Because of the balance and diversity of its footwear merchandising operations, Melville was not as adversely affected as it might have been by the industry-wide decline in women's dress shoe sales caused by a general lack of customer acceptance of the industry's 1969 styles. Although the Miles Division which specializes in women's dress shoes suffered from the drop-off in women's sales, Thom McAn's emphasis on women's casual models and its good year in men's shoe sales served to offset the decline to a considerable extent. From all indications, style changes should bring a turnaround in women's footwear sales in 1970.

During the year Melville completed its acquisition of Consumer Value Stores, a New England based health and beauty aid specialty chain and its companion company, Mark Steven, Inc., a health and beauty aid distributor located in Woonsocket, Rhode Island.

Melville has agreed in principle to acquire Miller Shoe Company, a manufacturer of women's footwear and Country Casuals, a 10 store West Coast women's sportswear chain. Miller enables the Thom McAn Division to develop its own distinctive line of feminine footwear. Country Casuals will further our expansion into the women's specialty apparel field.

The CVS, Miller and Country Casuals acquisitions will be important in Melville's overall plan of continuing to build a major, national specialty merchandising operation.

Melville's specialty apparel divisions, Chess King (young men's) and Foxwood (young women's) continued to improve their market positions while significantly increasing the number of their stores. Chess King advanced from 6 to 21, and Foxwood from 16 to 34.

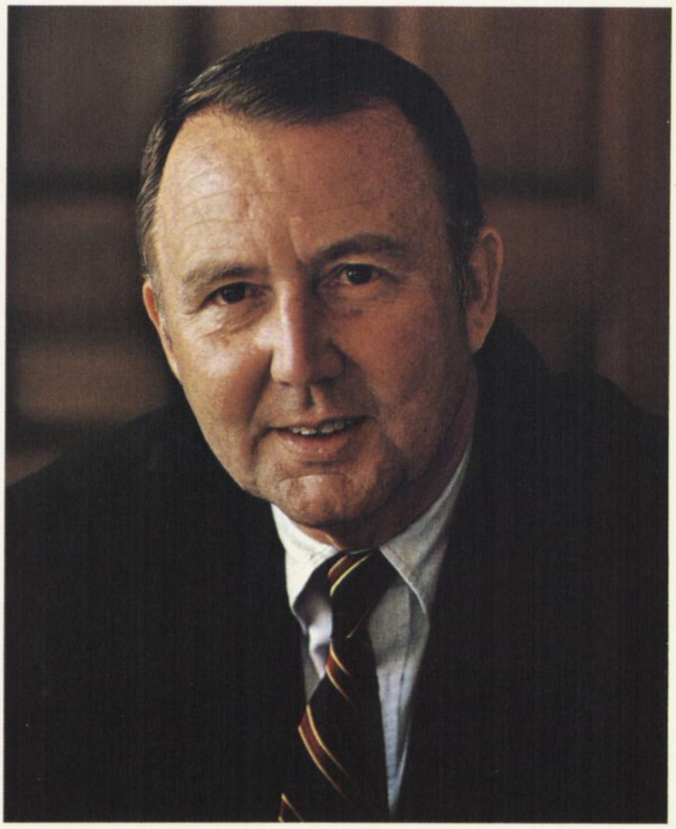
Improvement and additions to facilities during the year included the construction of a 100,000 square foot warehouse in Los Angeles to support Meldisco's West Coast growth as well as a 100,000 square foot addition to Meldisco's Brockton, Massachusetts warehouse, enlarging that installation to 300,000 square feet. Meldisco also established a Western Regional Merchandising Office. Foxwood opened a new distribution center in Pittsburgh, Pennsylvania, while the Manufacturing Division completed its new Nashua, New Hampshire headquarters for all manufacturing operations. Construction of a new Blue Ridge Shoe Company plant in Robersonville, North Carolina, is scheduled for June.

Changing to meet the challenges of the constantly changing American marketplace, Melville, completing the decade of greatest growth in its history, looks forward to a new decade of even greater change, growth and progress.

Francis C. Rooney Jr.

Francis C. Rooney, Jr.
President

March 6, 1970



Francis C. Rooney, Jr. *President*

Corporate Management

Leadership and autonomy for faster growth through specialty merchandising

Designed for maximum flexibility and responsiveness in an era demanding the ability to take quick advantage of fast-breaking marketing opportunities, the Melville management system guides the Company's divisions while guarding their autonomy.

Freedom of action at the divisional level has been especially important in Melville's expansion of its specialty merchandising programs. Exploiting special markets within larger markets requires the expertise, concentration and maneuverability characteristic of smaller companies. Under Melville's system, its divisions and subsidiaries, with their autonomy and specialized capabilities, are essentially "small companies," operating within the framework of a large, national organization.

This "best of both worlds" arrangement is implemented at the corporate level through the Operating Committee. Made up of the corporate officers, the divisional presidents and the head of real estate, the Operating Committee passes on the recommendations of the divisional presidents as to sales and profit goals and other important decisions, but leaves the methods of carrying out decisions to the divisions and subsidiaries.

Balance, cohesion and coordination are achieved by corporate management through the development and improvement of such operational phases as EDP techniques in reporting sales and taking inventory and the establishment of adequate warehousing and distribution facilities necessary to keep up with Melville's accelerating rate of growth.

Corporate management meshes the strengths of the divisions through encouraging the cross-pollination of ideas and the exchange of talents and capabilities among the divisions.

The development of new materials and manufacturing techniques by the Melvil Manufacturing Division, for example, ha made it possible for Thom McAn and Meldisco to offer an unusual diversity in their lines and keep up with the rapid pace of fashion.

Multiple-store representation by Melville and its subsidiaries in the nation shopping centers — with a half dozen or more different units operating in a given center — is the logical result of Melville's management's decentralized drive for a significant share of America's prolifera ing specialty merchandising markets.

FOXWOOD CASUALS
Thom McAn

hom McAn

en's long-time leader and top favorite n youth and women's specialty markets

or Thom McAn—the world's best-elling shoe brand—the industry-wide lump in women's footwear and a falling ff in some children's lines were offset y an outstanding year in men's ootwear sales.

New store decor and format designs vere introduced during the year, further mphasizing the contemporary look and ncreasing shopper convenience. "One top" shopping, favored by the young, was encouraged with the addition of displays f hosiery, handbags and other footwear-elated items. The first of the "new look" Thom McAn stores was opened in January vith more planned for 1970.

Upgraded product quality and styling continue to be important elements in the Thom McAn specialty merchandising approach. New lines of Skors Swedish clogs, Winterboots and "glove-like" Roma soft shoes highlighted 1969.

The introduction of the Vanguard chain, operating as part of the Thom McAn Division and offering domestic and foreign footwear moved Melville's men's sales into the upper price ($20-$50) ranges, concentrating on the younger, fashion-conscious man with a middle to high income. Four Vanguard stores were opened in the fall of 1969 with more planned for 1970.

One of Thom McAn's great competitive advantages — the ability to gather information on taste trends at the retail level and have it rapidly incorporated into product form by the Melville Manufacturing Division — contributed substantially to the success of the Thom McAn Division in 1969.

Melville Manufacturing (J. F. McElwain and Blue Ridge Shoe Company) kept Thom McAn in the forefront of fashion through its rapid change-over in the equipment and processes necessary to produce the new buckle and slip-on men's styles. Extensive testing by the Manufacturing Division in cooperation with Thom McAn in the Melville Testing Laboratory helped speed the adoption of new materials and techniques that contributed significantly to increased men's sales during 1969.

During the year the Thom McAn chain closed 35 marginal and unprofitable men's and boys' units and opened 35 new stores, the majority of which were of the larger, family variety. The chain plans a major store-expansion program for 1970 with a projection of 50-70 openings.

Thom McAn

MILES

Miles

Nationwide specialists in fashion footwear and "Frippery"

Although adversely affected to an extent by the slowup in women's dress shoe sales, the Miles Shoe Division of Melville further expanded its specialty merchandising program in the young fashion footwear market during 1969 by widening its price range and its fashion scope, adding new fashion accessory lines, and broadening its merchandising coverage.

Miles became a national chain for the first time by opening 6 stores in California during the year including a location near Hollywood and Vine. Altogether, Miles opened 14 new stores in 1969 for a total of 284. Openings included new stores in major shopping centers in Lansing, Michigan; Pittsburgh, Pennsylvania; Wilmington, Delaware; Columbus, Ohio; Nanuet, New York; and Smithtown, Long Island.

In its change-over to the young, sophisticated format, Miles also completely remodelled 15 stores. All Miles stores of the new type — 15 of which are planned for 1970 — stress an intimate, informal atmosphere. Easily accessible merchandise encourages browsing, while a "conversation pit" seating arrangement helps customers relax as they shop.

Miles' "Frippery" boutiques were one of the division's important 1969 innovations. These small specialty merchandising units, which have been received enthusiastically by shoppers, feature young fashion accessory lines including costume jewelry, scarves, sun glasses, pantyhose and handbags.

Miles continued to upgrade its footwear, increasing the top price levels of its women's dress shoes to $14.99; boots to $27.99; and handbags, including quality leather imports, to $12.99. Miles is now importing footwear from Spain, France, Italy, Sweden, England and Japan. At the same time, quality domestic resources were further developed.

Personnel recruitment — the average age of the Miles merchandising staff is now under 30 — and training and evaluation programs were intensified. Inventory and management were improved through the expanded use of EDP and the installation of a new IBM 1287 Optical Character Reading machine which reads cash register tapes and records sales and expense data from all Miles stores.

eldisco

ast growing specialists in fast growing eld serving millions of economy-minded amilies

elville's Meldisco Division is the second argest leased department operation in an rea of specialty merchandising serving amilies who shop in the large discount tores.

During 1969 Meldisco strengthened its perations in the key areas of advertising nd promotion, buying and merchandising, nd inventory and distribution. The diviion improved the effectiveness of its romotional advertising during the year ith the creation of a new sales promotion irector's function concentrating responibility and effort in one department. The uying and merchandise department was nlarged during the year to include 4 merchandise managers, 9 buyers, and 38 merchandisers with special training in leased department merchandising.

Meldisco's store operating divisions now include 7 regional sales directors and 39 district managers, covering different regions of the United States and Puerto Rico.

Meldisco expanded its EDP and Systems operations and is presently developing a new Merchandising Information System that will greatly improve inventory productivity, reduce markdowns and improve inventory turnover.

The division also significantly expanded its warehouse facilities during 1969, adding 100,000 square feet to its Brockton, Massachusetts warehouse for a total of 300,000 square feet. A 100,000 square foot warehouse in Los Angeles was completed in January 1970 to supply Meldisco operations in 9 Western states. A Western Regional Merchandising Office was also established to serve the growing region where Meldisco expects to open 45 new departments through 1970, with a goal of 125 set by the end of 1973.

The number of leased departments operated by Meldisco subsidiaries increased in 1969 from 272 to 331 with plans for 1970 calling for 100 more and 70-100 a year over the next five years. By 1973 Meldisco — now the second largest — expects to be first in its field.

Much of the success achieved by Meldisco in 1969, as in past years, was due to the close working relationship between Meldisco and the Melville Manufacturing Division in providing ample supplies of the right kind of footwear at the right time. This is especially true of the Tifton, Georgia plant, with its capability of producing footwear of man-made materials in quantity and on a flexible basis.

MELDISCO

chess king

Chess King

The **place to buy — and be — for the teen male who wants action with his style**

Melville's approach to specialty merchandising is dramatically demonstrated by the success of the Chess King teen male apparel shops.

The only national chain of its kind, Chess King has developed a concept of store format, atmosphere, merchandise mix and promotional techniques that has led tens of thousands of teen males to mark Chess King stores as their exclusive shopping territory.

For a teenager, Chess King is not a store in the usual sense but a *place* "where the action is." Chess King is where rock bands perform on stages on opening day, where the customer climbs a runway to shop at different levels, where the merchandise is displayed on a mock drawbridge spanning the store and where styles are right up to the latest teen trend.

The newest in bellbottoms — box bellbottoms cut from square planes of cloth; heavily fringed Western style leather pants and jackets; Wallace Beery and "tank-top" undershirt styles for outerwear, are some of the latest items eagerly sought after by teen shoppers at Chess King.

But it is always something else that the teen will be spending his money for tomorrow; and Chess King keeps ahead — and avoids the "mark down" pitfalls of high-style merchandising — through a unique arrangement with manufacturers whereby the usual seasonal production cycle has been cut to 60 days.

The development of highly flexible new suppliers — specializing in teen male apparel — has enabled Chess King to develop its own private brand labels with pants and shirts — Chess King's specialties — becoming top-selling favorites with teen customers.

"Event promotion" on local "sound" radio — featuring special events such as the appearance of a rock band at a Ches King store, or a give-away contest — is being expanded as Chess King grows. Other elements of the operations were also strengthened and expanded durin 1969, including the recruitment and trai ing of young store managers (the averag age is 24) to man the new stores and the further refinement and application of advance inventory and distribution procedures.

A national favorite with shopping cent developers because of its high traffic, the two-year-old Chess King chain opened 15 new stores in 1969 for a total of 21 an plans 50 more for 1970.

ariety and depth in fashion and
nd for the "with it" young miss

n its first full year as a division of
lelville, Foxwood continued to refine and
mprove its speciality marketing position
n women's apparel.

The chain further sharpened its mar-
eting objectives by concentrating on the
eenage girl equivalents of the Chess King
ustomers—the rapidly increasing number
f "with it" youngsters who lead the fast-
hanging style trends. In attracting the
ounger customer—as well as "young-
hinking" women of all ages—Foxwood is
oncentrating on junior sizes, while pro-
iding a greater depth and variety within
s lines.

Store decor, already comfortably casual with its natural wood paneling, thick, red rugs and antique accents, has been made even more intimate through painting the ceiling dark brown and eliminating the overhead lighting. To add further to the intimate, youthful image, customers shop to the rhythms of pop music piped into the stores.

Displays are a special feature of the Foxwood specialty merchandising concept. Currently the stores are emphasizing "motion" displays with dresses and other garments fastened to the walls in "action" form. Merchandise is also displayed on tables, rather than hanging on racks, to give shoppers a better chance to examine it carefully.

Foxwood also put new emphasis during 1969 on the development of accessory and costume jewelry displays in its stores, achieving considerable success with such items as slave bracelets, chokers, "peace" rings and leather goods.

In a further extension of its activities, Foxwood has also initiated a program of radio advertising, specifically aimed at attracting the style and fad-conscious customer to the Foxwood shops.

To keep pace with its expansion, Foxwood is increasing the size of its supervisory staff and has initiated a management training program to prepare managers for the new stores. Foxwood expansion is now on a nation-wide basis with 18 stores having been added in 1969 for a total of 34. New stores are located in Connecticut, Rhode Island, Florida, Tennessee and California. Plans call for the opening of some 30 new stores in 1970.

FOXWOOD CASUALS

onsumer Value Stores

he most of the best for the least in ealth and beauty aids

n developing its own market within a arket — health and beauty aids — lelville's Consumer Value Stores Division s successfully capitalizing on the rising emand among consumers for a greater efinition and specialization within the erchandise lines carried by the conven- onal drug store.

CVS greatly reduces consumer con- usion by consolidating the various brands nd types of health and beauty aid roducts in convenient store format.

At the same time, because it is a specialty merchandising operation, this Melville division can provide the consumer with depth of choice within given product lines that cannot be matched in general drug stores with their variety of merchandise categories.

Discount pricing and an emphasis on promotion combine to produce a steady traffic flow for CVS stores, which have the further advantage of being conveniently located in residential areas as well as in shopping centers.

CVS, acquired by Melville in October 1969, consists of two operations — CVS, a chain of stores located primarily in New England, and Mark Steven, Inc., the distribution organization that buys and distributes the merchandise carried by the CVS stores.

CVS, which opened its first store in 1963, now has some 50 outlets and, since becoming a division of Melville, has been expanding its original New Engla base. Some 50 CVS stores are planne for 1970.

CVS is also operating on a test basis three stores called Now Shops. Relative small, and designed to appeal to the you market, these shops offer individualistic home decorating, fashion accessory a novelty items. The special shopping atmosphere of the Now Shops is intima low-key and contemporary with the emphasis on off-beat fixtures and decor.

CVS
CVS
CVS

Ten Year Financial Summary

Melville Shoe Corporation
and subsidiary companies

	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960
Results for the Year (000's omitted)										
Net Sales	$362,492	$292,972	$258,752	$234,313	$203,545	$195,171	$182,403	$176,448	$165,867	$161,594
Wages and Compensation	73,470	64,952	57,279	51,827	46,122	44,305	41,768	41,648	39,619	40,029
Taxes — All	21,222	18,124	15,320	11,797	9,866	10,062	8,192	8,617	8,839	8,808
Earnings Before Federal Income Taxes	32,917	27,600	23,408	17,633	13,668	12,337	8,462	9,150	11,091	11,917
Net Earnings	19,050	16,228	14,370	11,192	8,418	7,111	4,814	4,987	5,988	6,608
Dividends Paid	7,657	6,416	4,833	3,922	3,281	2,779	4,196	5,050	5,065	4,870
Per Share Results of Common Stock*										
Net Earnings	$ 3.26	$ 2.89	$ 2.54	$ 1.94	$ 1.42	$ 1.18	$ .76	$ .79	$ .97	$ 1.08
Dividends	1.30	1.10	.80	.62½	.50	.40	.65	.80	.80	.76¼
Taxes — All	3.71	3.31	2.80	2.14	1.77	1.81	1.47	1.55	1.59	1.58
Book Value	12.50	10.46	8.68	7.24	6.12	5.17	4.39	4.28	4.09	3.89
End of Year Position (000's omitted)										
Current Assets	$104,751	$ 85,444	$ 77,352	$ 67,275	$ 61,596	$ 58,702	$ 49,782	$ 50,247	$ 50,432	$ 50,114
Current Liabilities	40,244	29,619	26,119	20,279	18,745	17,273	13,694	15,529	14,495	13,496
Current Ratio	2.60	2.88	2.96	3.32	3.30	3.40	3.64	3.24	3.48	3.71
Property, Plant and Equipment (000's omitted)										
At Cost	$ 71,016	$ 63,283	$ 57,451	$ 53,316	$ 50,361	$ 47,167	$ 47,317	$ 47,100	$ 44,695	$ 41,600
Net After Accumulated Depreciation	32,458	25,391	20,893	18,377	17,350	16,030	17,927	19,441	19,637	18,230
Capital Additions	14,439	8,841	6,409	4,945	4,971	2,046	2,356	3,328	4,610	4,409
Depreciation	4,420	3,824	3,455	3,292	3,148	3,272	3,308	3,346	3,073	2,714
Percent to Net Sales										
Earnings Before Federal Income Taxes	9.08%	9.42%	9.05%	7.53%	6.72%	6.32%	4.64%	5.19%	6.69%	7.37%
Net Earnings	5.26%	5.54%	5.55%	4.78%	4.14%	3.64%	2.64%	2.83%	3.61%	4.09%
Percent Net Earnings to Shareholders' Equity	27.70%	27.84%	28.16%	24.41%	19.87%	18.52%	12.64%	13.37%	16.01%	18.07%
Number of Stores	1,626	1,474	1,366	1,314	1,275	1,250	1,244	1,249	1,212	1,156

*Adjusted to reflect two-for-one stock split on April 10, 1968.

Financial Review

Earnings. Consolidated net earnings for the year 1969, amounted to $19,049,974 as compared with $16,227,503 for the year 1968, an increase of 17.4%. Earnings per common share for 1969 amounted to $3.26 an increase of 12.8% over the $2.89 earned the previous year. Excluding the acquisition of Consumer Value Stores and Mark Steven, Inc., 1969 earnings per common share would have been $3.28 as compared to $2.89 in 1968, an increase of 13.5%.

The net earnings for 1969 were the highest in the company's history.

Sales. Consolidated net sales for 1969 were also the highest of any year of the company, advancing to $362,491,889 an increase of 23.7% over the net sales for 1968 of $292,971,938. Net sales, excluding the acquisition of Consumer Value Stores and Mark Steven, Inc. would have been $338,749,697 as compared to $292,971,938 in 1968, an increase of 15.6%.

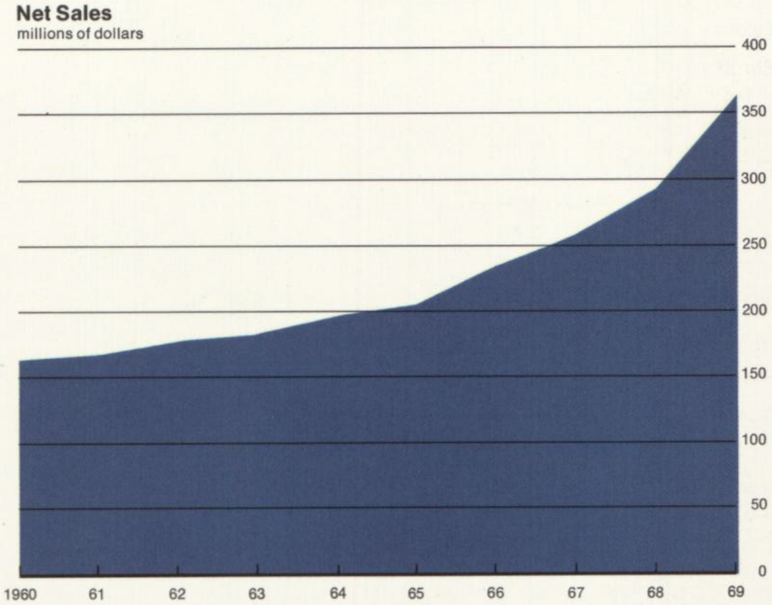
Dividends. During 1969, the company paid a dividend on common stock of $1.30 per share. In January 1970, the quarterly dividend on common stock was increased to $.37½ from $.32½ per share. This increase raised the dividend to an annual rate of $1.50.

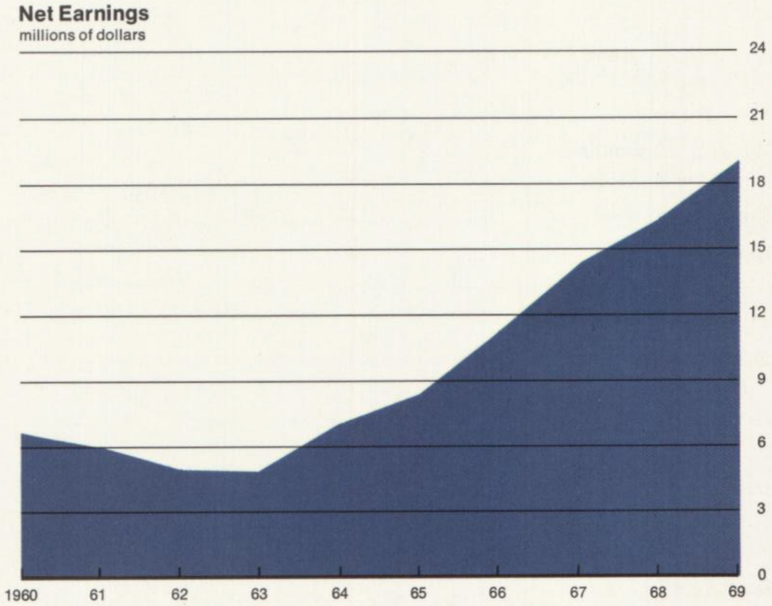
Property, Plant and Equipment. Capital additions for the year 1969 amounted to $14,439,383 an increase of $5,598,705 over $8,840,678 for 1968. Depreciation charged for the year 1969 was $4,419,977 as compared with $3,824,078 in 1968.

Capital Stock. In January 1970, the Board of Directors voted recommendations to the shareholders for approval at the annual meeting on April 14, 1970, to split the common stock on a 2 for 1 basis and to increase the authorized common shares from 10,000,000 to 15,000,000 shares.

Distribution of Sales Revenue	**1969**	**1968**
Received from the sale of products	$362,491,889	$292,971,938
Paid for materials, merchandise and all expenses, exclusive of taxes and other amounts paid to or for the benefit of employees	248,117,028	193,441,399
Remainder	114,374,861	99,530,539
This was divided as follows:		
Wages and compensation	73,469,970	64,951,698
Taxes	21,221,724	18,124,005
Minority interests	633,193	227,333
Paid to shareholders or retained in the business	19,049,974	16,227,503

In 1969, after payment for materials, merchandise, taxes and other necessary expenses, 79% of the balance went to employees and 21% was paid to shareholders or retained in the business.





Statement of Consolidated Financial Condition

as of December 31, 1969 and 1968

Assets	**1969**	**1968**
Current assets:		
Cash	$ 16,586,552	$ 18,011,946
Accounts receivable, less provision for losses	9,619,676	6,051,033
Inventories — at lower of cost (10% valued at lifo) or market, principally by the retail method	75,908,285	58,744,980
Prepaid expenses	2,636,046	2,635,858
Total current assets	104,750,559	85,443,817
Property, plant, equipment and leasehold improvements, at cost:		
Land	2,522,108	2,207,021
Buildings	5,789,372	6,841,653
Machinery and equipment	6,149,184	5,677,348
Store and office fixtures, improvements to leased properties and miscellaneous equipment	56,555,178	48,556,545
	71,015,842	63,282,567
Less accumulated depreciation and amortization	38,557,755	37,891,181
Net property, plant, equipment and leasehold improvements	32,458,087	25,391,386
Unamortized debt discount and expense	154,128	168,804
	$137,362,774	$111,004,007

See accompanying notes to consolidated financial statements.

Liabilities	**1969**	**1968**
Current liabilities:		
Accounts payable and accrued expenses	$ 32,559,914	$ 22,375,986
Federal income taxes	7,556,682	6,975,492
Current installments on long-term debt	127,436	268,000
Total current liabilities	40,244,032	29,619,478
Long-term debt:		
4⅞% Debentures, due 1980 (annual sinking fund requirement $600,000)	7,200,000	7,800,000
3½% Promissory Note, due 1984, payable in quarterly installments	1,773,000	1,874,000
9¼% Mortgage Notes, due 1989, payable in monthly installments	1,167,846	—
	10,140,846	9,674,000
Deferred credit (note 2)	919,957	1,064,115
Deferred Federal income taxes (note 3)	987,582	569,319
Lease obligations for closed stores	1,409,264	1,728,675
Minority interests in subsidiaries	1,984,648	696,155
Shareholders' Equity		
Capital stock (notes 1, 4 and 5):		
Preferred stock, Series B, $4.00 dividend	10,514,600	10,514,600
Common stock	15,663,896	15,496,810
	26,178,496	26,011,410
Retained earnings	57,705,057	45,184,181
	83,883,553	71,195,591
Less cost of common and preferred shares held in treasury	2,207,108	3,543,326
	81,676,445	67,652,265
	$137,362,774	$111,004,007

Commitments and contingencies (Notes 3 and 6)

Statement of Consolidated Earnings

Years ended December 31, 1969 and 1968

	1969	1968
Net sales	$362,491,889	$292,971,938
Cost of goods sold, buying and warehousing costs	209,906,180	166,463,893
	152,585,709	126,508,045
Store operating, selling, general and administrative expenses	114,315,384	94,747,265
Depreciation and amortization	4,419,977	3,824,078
Interest charges	1,606,505	709,398
	120,341,866	99,280,741
	32,243,843	27,227,304
Other income — net	673,324	372,532
Earnings before Federal income taxes	32,917,167	27,599,836
Provision for Federal income taxes (note 3)	13,234,000	11,145,000
	19,683,167	16,454,836
Minority interests in net earnings	633,193	227,333
Net earnings	$ 19,049,974	$ 16,227,503
Net earnings per share — common stock	$ 3.26	$ 2.89

Statement of Consolidated Retained Earnings

Years ended December 31, 1969 and 1968

	1969	1968
Retained earnings at beginning of year	$ 45,184,181	$ 38,293,398
Add: Net earnings for year	19,049,974	16,227,503
Retained earnings of companies acquired	1,128,104	58,916
	65,362,259	54,579,817
Deduct:		
Cash dividends paid:		
Preferred stock, Series B, $4.00 a share	395,674	408,944
Common stock, $1.30 a share; 1968, $1.10 a share	7,261,528	6,006,962
Transfer to common stock account of an amount equal to $1 par value per share to give effect to two-for-one common stock split	—	2,790,458
Excess of cost over proceeds from sales of treasury stock under qualified stock option plan	—	189,272
	7,657,202	9,395,636
Retained earnings at end of year	$ 57,705,057	$ 45,184,181

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note (1) Principles of Consolidation: The financial statements include the accounts of Melville Shoe Corporation and its subsidiary companies, which are wholly owned except for an 80% owned foreign manufacturing subsidiary and certain 75% owned retail subsidiaries.

During 1969 the company issued 180,000 shares of its common stock to effect the acquisition of Retail Store Management, Inc. and Mark Steven, Inc., which has been accounted for as pooling of interests. Prior year figures have not been restated due to the immaterial effect on earnings and financial position.

Note (2) Retirement Plans: The company's provision under pension plans aggregated $811,946 for the year; such amount includes amortization over a thirty-year period of prior service costs, less amortization in annual installments to 1978 of a deferred credit of $919,957 representing the amount provided for pensions prior to adoption of funding for all plans.

The total of pension funds and amounts accrued for pensions was in excess of the actuarially computed value of vested benefits as of December 31, 1969.

Note (3) Federal Income Taxes: (a) Certain charges to income differ in amount from those recorded in tax returns. These differences arise from (a) use of the straight-line method of depreciation as contrasted with use of an accelerated method for tax purposes and (b) accrual of lease obligations to end of lease terms of closed stores which for tax purposes are deducted as paid. The provision for Federal income taxes charged to earnings includes the net tax effect of such differences, which charges approximated $429,000 in 1969 and $75,000 in 1968. The cumulative net deferred Federal income taxes resulting from such differences are attributable to accelerated depreciation, $1,731,673 (deferred credit) and accrual of lease obligations on closed stores, $744,091 (deferred charge).

(b) In connection with an examination of tax returns of the company and its subsidiaries for the years 1964, 1965 and 1966, the Internal Revenue Service in 1969 questioned the claiming of separate surtax exemptions for the subsidiary companies. Separate surtax exemptions have been accepted by the Service for all years prior to 1964 and, in the opinion of the company, they are allowable under the then existing legislation; accordingly, it intends to contest any disallowance. Pursuant to the Tax Reform Act of 1969, multiple surtax exemptions for controlled groups are to be phased out over a six-year transitional period commencing in 1970. If consolidated tax returns had been filed for 1969 and 1968, the approximate reduction in earnings per share would have been $.50 and $.46, respectively.

Note (4) Capital Stock: Authorized preferred stock consists of 208,496 shares of cumulative preferred stock of $100 par value, issuable in series. During the year, 3,720 shares of Series B cumulative preferred stock were purchased for $248,276 for sinking fund purposes, increasing treasury shares to 8,170 at a cost of $569,757. At December 31, 1969 there were 96,976 shares of Series B cumulative preferred stock outstanding; such shares are redeemable at the option of the company at par value.

During the year, four shares of common stock were acquired for $235 and 62,799 shares were delivered under the stock option plan, leaving 39,619 shares in treasury at a cost of $1,637,351.

On January 13, 1970, subject to stockholder approval, the Board of Directors approved a two-for-one stock split and an increase in the number of $1 par value common shares authorized from 10,000,000 shares to 15,000,000 shares. There were 5,737,647 common shares outstanding at December 31, 1969.

Note (5) Stock Option and Stock Purchase Plans: Under a stock option plan for key managerial employees, 244,921 shares of common stock were reserved at December 31, 1969. Transactions during the year are as follows:

	Number of Shares	Price Range Per Share
Options granted but not exercised at Jan. 1, 1969	108,414	$9.9375-$58.75
Add:		
Options granted	116,800	$55.75 -$71.75
	225,214	
Deduct:		
Options exercised	60,495	$9.9375-$34.1875
Options cancelled	4,966	$15.25 -$57.375
	65,461	
Unexercised options at Dec. 31, 1969	159,753	$15.25 -$71.75

At December 31, 1969 options for 36,237 shares were exercisable and 85,168 shares are available for grant under the plan.

Under the incentive stock purchase plan covering a maximum of 200,000 common shares, key managerial employees may purchase shares of common stock within two years from the date such stock is offered to them. The minimum purchase price is the higher of (a) book value per share as of the fiscal year-end preceding the date of offer or (b) 50% of the fair market value at the date of offer. During 1969, 3,666 shares were offered for purchase under the plan and 2,304 shares were purchased. No shares were offered for purchase prior to 1969.

Note (6) Commitments: Total minimum annual rentals (exclusive of amounts based on sales) payable under leases amounted to approximately $17,500,000 at December 31, 1969. Such leases will expire on various dates to 1998; however, it is anticipated that as leases expire they will be renewed or new leases will be executed. Total rent expense for the year amounted to approximately $26,600,000.

The company entered into preliminary agreements for the acquisition of Miller Shoes, Inc. and Country Casuals in exchange for a minimum of 27,860 common shares but not more than 39,166 shares. The closing dates are dependent upon satisfaction of the conditions set forth in the preliminary agreements.

Statement of Consolidated Source and Application of Funds

Years ended December 31, 1969 and 1968

	1969	1968
Source of Funds:		
Net earnings	$19,049,974	$16,227,503
Depreciation	4,419,977	3,824,078
Increase in deferred Federal income taxes	418,263	85,748
Proceeds from sale of treasury stock under stock option plan	1,789,618	446,072
Disposition of property, plant and equipment	2,952,705	518,265
Increase in long-term debt	1,198,500	—
Increase in minority interests	1,288,493	527,808
Companies acquired	1,090,301	189,439
	32,207,831	21,818,913
Application of Funds:		
Reduction (net) in provision for lease obligations on closed stores	319,411	221,537
Additions to property, plant and equipment	14,439,383	8,840,678
Reduction of long-term debt	731,654	697,000
Purchase of treasury stock — common	235	631,916
Purchase of treasury stock — preferred	248,276	461,027
Cash dividends on preferred and common stock	7,657,202	6,415,906
Other — net	129,482	127,680
	23,525,643	17,395,744
Net increase in working capital	$ 8,682,188	$ 4,423,169

Accountants' Report

To the Board of Directors
and Shareholders
Melville Shoe Corporation:

We have examined the statement of consolidated financial condition of Melville Shoe Corporation and subsidiary companies as of December 31, 1969 and the related statements of consolidated earnings and consolidated retained earnings for the year then ended. Our examination which included the accompanying statement of consolidated source and application of funds for the year ended December 31, 1969 was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to final determination of Federal income tax liability as described in note 3b of notes to consolidated financial statements, the accompanying statement of consolidated financial condition and statements of consolidated earnings and consolidated retained earnings present fairly the financial position of Melville Shoe Corporation and subsidiary companies at December 31, 1969 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of consolidated source and application of funds for the year ended December 31, 1969 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

New York, New York
March 6, 1970

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25 West 43rd Street, New York, New York 10036

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